A Comparative Study of the performance of Bank of Baroda(BoB) in Pre and Post Merger period

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1. Introduction:

India, being the world's largest independent democracy, holds a significant position as an emerging economic powerhouse. The importance of a robust and effective banking system cannot be overstated, as it serves as the backbone of a healthy economy. In India, the banking industry plays a crucial role in the country's economic development and stands as the dominant segment within the financial sector.

However, in recent times, the concept of merger and acquisition has gained considerable traction, particularly after the liberalization efforts initiated in 1991. Merger and acquisition strategies have become widely adopted by firms as a means to fortify and maintain their market position. These strategies are viewed as expedient and efficient methods to expand into new markets and assimilate new technologies. In the Indian banking sector, mergers and acquisitions have proven to be instrumental in enhancing the financial performance of banks both before and after the consolidation, enabling them to achieve their goals. A merger represents a pivotal event wherein two companies combine and consolidate their operations to achieve synergies. It serves as a form of external restructuring aimed at averting financial distress, confronting the challenges posed by intensifying competition, and capitalizing on enhanced efficiency and competitive strength. Another contributing factor to the rapid consolidation within the banking sector is the increasing presence of foreign banks in India. These further fuels the flames of competition, as foreign bank's view mergers and acquisitions as a swift means of achieving inorganic growth. With the changing times, the Indian banking system is transitioning from a landscape characterized by numerous small banks to a

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structure dominated by a smaller number of large banks. This shift has already taken place in developed economies, leaving a mark in history. However, in emerging economies like India, this system is gaining prominence and making significant strides.

Over the past three decades, the Indian banking sector has experienced significant changes, leading to a more socially relevant and development-oriented industry. In 1969, the nationalization of 14 major banks in India marked a significant milestone in this transformation. This was followed by the nationalization of six more banks in 1980. During this era, the banking industry was dominated by nationalized banks, which operated with the primary objective of social banking and prioritized the welfare of the people. However, during that time, the efficiency of banks in their operations was not as commendable as it is today. In the modern era of cut-throat competition, every bank and banking group strives to attract more customers in order to establish a prominent position in the industry. They aim to gain recognition through their operations and working, thereby increasing customer loyalty.

Presently, nationalized banks in India not only focus on providing a wide range of facilities to their customers but also prioritize the quality of these services. To address issues such as Non-Performing Assets (NPA) and other financial, working, and functional instabilities, the Indian government has merged some nationalized banks. As a result, there are currently 12 nationalized banks operating in the country. The banking industry in India is now considered one of the rapidly growing sectors. Merger and Acquisition (M&A) activities have played a crucial role in this growth, leading to improved financial performance both before and after the mergers. Furthermore, these mergers and acquisitions have resulted in the formation of large universal banks with substantial total

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assets, diverse product offerings, and geographical reach. One notable merger in the Indian banking industry is the amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda(BoB) in 2019, making it the largest merger in the history of the Indian banking industry. So, this topic is selected to analyse the comparative study of pre and post merger performance of Bank of Baroda(BoB).

2. Literature Review:

Several scholars have undertaken extensive research on the topic of Merger & Acquisition in the banking sector. This serves as a comprehensive summary of the studies conducted in this field. The research work incorporates an examination of various pertinent articles. To conduct a comparative analysis of the Pre and Post Merger of BoB, it is imperative to conduct a thorough literature review.

Arunachalam (2021): The research focused on examining the effects of organizational restructuring on employee stress and job outcomes within the Indian Banking sector, specifically with regards to the State Bank of India (SBI). A paired t-test was utilized to compare the level of job outcomes experienced by employees before and after the merger. The findings revealed that psychological contract breach significantly influenced job stress. Additionally, the results demonstrated that the merger had a positive impact on employees, leading to increased job involvement and job engagement post merger.

Hassan & Giouvris (2020) The investigation focused on the impact of financial institutions' merger announcements on shareholders' value adjustment window.

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The study analyzed both the immediate event window and the extended event window. Additionally, the pre and post merger performance on accounting measures, including various cash flow and profitability measures, were examined. The event window analysis was utilized to calculate abnormal returns and cumulative abnormal return during the immediate window of the merger event. Furthermore, a buy and hold event study analysis was conducted to assess the effect on the extended window. Accounting ratios were employed to measure the performance analysis. The findings revealed that mergers of financial institutions tend to diminish shareholders' value for acquiring firms aiming to enter new markets. On the other hand, the creation of shareholders' value was observed through market development and product development strategies in both the short and long run. The diversification strategy did not have a significant influence on shareholders' value. The study also indicated that local bank-to-bank acquisitions contribute to the creation of shareholders' value and enhance liquidity and economic value in the short term. However, cross-border bank-to-bank mergers were found to create shareholders' value in the long run, albeit with higher costs and increased risk.

Ishwarya (2019): The researcher conducted an analysis on the effects of Mergers & Acquisitions in the banking industry of India. A specific case study was conducted on the merger of SBI and its associated banks. This study is primarily theoretical and relies solely on secondary data. It provides a comprehensive overview of the merger's impact, the motivations behind it, the emerging trends in mergers, and the advantages and disadvantages of the SBI merger with its associates. The findings of the

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study indicate that M&A has achieved a certain level of success in the Indian banking sector.

Yadav (2017): The impact of mergers on the performance of selected commercial banks in India was thoroughly studied. The evaluation of this impact was conducted from three different perspectives: the physical performance of the merged banks, the financial performance of the merged banks, and the share price performance. The researcher specifically chose six scheduled commercial banks that had undergone mergers between 2004 and 2015. Out of these six banks, three were mergers between public sector banks and private sector banks, while the other three were mergers between private sector banks. To assess the physical performance of the merged banks, various variables were taken into consideration, including deposits, advances, business volume, the number of branches, and the number of employees. The financial performance of the merged banks was evaluated using the CAMEL model. Additionally, the share price performance was analyzed through two dimensions: abnormal return and cumulative abnormal return, as determined by the event study methodology. The necessary data for this analysis was collected from the annual reports of the banks. Statistical tools such as mean, standard deviation, simple and multiple regression, t-test, one-way and two-way ANOVA were utilized to analyze the performance and test the hypotheses. The findings of the study indicate that the physical performance of the merged banks improved after the merger. However, the analysis of the financial performance of the merged banks yielded mixed results, although, on average, the overall financial performance of the merged banks increased post merger. Regarding the share price performance analysis, it was revealed that mergers are not a preferred tool for shareholders to achieve wealth in

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the short-term period following the merger. However, mergers do serve as a useful strategy for banks to expand their operations, cater to a larger customer base, and increase profitability, liquidity, and efficiency. It is important to note, however, that mergers alone cannot completely eliminate overall performance issues and challenges faced by the banks.

Singh (2016) An analytical study was conducted on the Mergers & Acquisitions within the Banking sector in India. The study focused on four scheduled commercial banks, with two belonging to the Public sector and two to the Private sector. The researcher utilized the CAMEL model to analyze the financial performance and applied t-test to determine the significance. The study's findings indicated that mergers can be a beneficial strategy for banks, enabling them to enhance their activities, profitability, liquidity, and efficiency. However, it was concluded that mergers alone cannot address the overall growth and financial challenges faced by banks.

3. Research Gap Identification:

Upon careful examination of the literature encompassing numerous research studies, publications, and reports, the researcher has identified the following research gap:

- The researchers primarily focused on one element of a limited number of financial indicators, which may not necessarily remain valid over time unless a comprehensive approach is adopted.

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- Most authors emphasized only a few banks and no one attempted for BoB merger with Vijaya and Dena Bank research.

- The researchers have primarily focused on a limited set of parameters within the Banking Industry, such as NPA (Non Performing Assets), funds flow statement, Deposit& Advance, and Profitability analysis. However, there has been a lack of comprehensive exploration of overall parameters.

4. Statement of The Problem:

The Indian banking system has experienced substantial changes in recent times due to financial sector reforms, embracing global standards. Various prudent measures, payment systems, integration strategies, and provisioning norms have been implemented, compelling banks to enhance their efficiency and reduce non-performing assets (NPAs) in order to enhance the overall financial well-being of the banking system. Indian banks are considered to be among the finest globally due to their favourable growth prospects, asset quality, and profitability. The Reserve Bank of India (RBI) and the government have implemented noteworthy policy and regulatory changes to fortify the sector.

In light of this context, the current research aims to conduct:

A comparative analysis of the pre and post merger performance of Bank of Baroda (BoB) with Vijaya Bank and Dena Bank.

The objective is to examine the situation and management in relation to Financial performance.

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5. Objectives:

1. To study and analyse the concept, trends and legal framework of M&A of the related commercial banks in India.
2. To compare and analyse the Financial Ratios, CAMELS Rating System of pre and post merger performance of Bank of Baroda (BoB).
3. To highlight the theoretical background, impact and comparative study of pre and post merger financial performance of Bank of Baroda (BoB).
4. To find out if merger and acquisition can contribute for improvement in performance of Bank of Baroda (BoB).
5. To submit findings and suggestions in the light of the study.

6. Research Scope:

The banking sector plays a crucial role in the development of the Indian economy. Previous studies have primarily focused on financial performance, ratios, growth, operations, and progress of nationalized banks. However, this study specifically emphasizes the comparative analysis of the pre and post merger performance of the Bank of Baroda(BoB).

In 2019, BoB merged with Dena Bank and Vijaya Bank, which significantly impacted the bank's productivity, profitability, and functional efficiency. The merger resulted in changes in profitability, operations, and other financial ratios, allowing for a comprehensive evaluation of the bank's performance before and after the merger.

7. Hypothesis:

To validate the objectives of the study the following hypothesis are being formulated.

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H01: There is no significant difference between pre and post merger financial performance of acquiring banks.

H02: There is no significant improvement in financial ratios between pre and post merger performance of acquiring bank.

H03: There is no significant impact of Merger and acquisition on efficiency of the BoB.

8. Research Methodology:

8.1 Research Design:

Research is often regarded as a voyage from the realm of the unknown to the realm of the known. Methodology serves as the pathway to systematically address research problems. The essential secondary data serves as the primary source of information, aptly suited for the current study's objectives. This study will encompass both descriptive and analytical aspects, thereby enabling a comparison of financial ratios to fulfil specific objectives.

8.2 Merger period: 2019

8.3 Sample Size:

For achieving different objectives, Vijaya Bank and Dena Bank merger with Bank of Baroda(BoB) in 2019 will be taken in research study selected time period for research study is 10 years (2014 to 2024).

Sl No.	Acquirer Bank	Target Bank	Year of Merger

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1	Bank of Baroda (BoB)	Vijaya Bank	2019
2	Bank of Baroda (BoB)	Dena Bank	2019

8.4 Duration of Study:

The research study will focus on a specific time frame of 10 years, from financial year 2014(1st April, 2014) to 2024(31st March, 2024), in order to analyse and compare the performance of BoB before and after the merger.

8.5 Data Collection:

Different sources will be utilized to gather secondary data, including publications from the Ministry of Finance, the Reserve Bank of India (RBI), business magazines, annual reports from related banks' websites, and other online sources.

8.6 Analysis Technique:

A comprehensive evaluation is conducted to assess the true state of the bank by considering all its financial indicators. These indicators are utilized to compute various financial ratios such as Liquidity ratio, Operating profit ratios, and activity ratios. This analysis enables the examination and comparison of the bank's performance before and after a merger.

8.7 Statistical Tools:

a. Ratio Analysis

b. Trend Analysis

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c. T-test

8.8 Limitations:

1. Collection of Data will be secondary in nature. in such case, study carries all the limitations inherent with the secondary data and financial performance.

2. The study is restricted to BoB, Vijaya and Dena bank only, which may not be representing all the common characteristics of the universe.

3. This study is limited to only ten-year time frame (2014-2024)

9. Proposed Plan for Study

- Chapter -1: Introduction
  - Literature Review
  - Profile of related Commercial Bank in India
  - Research Methodology

- Chapter -2: Mergers & Acquisitions- Concepts, Trends and Framework

- Chapter -3: Performance of related commercial Bank in India before (pre merger) and after (post merger) merger: An Analysis

- Chapter -4: A Comparative study of financial performance of the related commercial Bank in India before (pre merger) and after (post merger) merger

- Chapter -5: Impact of merger and acquisition on the financial performance of the related Commercial Bank: An Appraisal

- Chapter -6: Findings, Conclusion and Suggestions

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